

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )

Inquiry into Policies and Programs )  
to Assure Universal Telephone Service )  
in a Competitive Market Environment )

RM-8388

~~RM 8388~~

GTE's COMMENTS

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its affiliated domestic  
telephone operating companies

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## SUMMARY

1. GTE agrees with MFS that the Commission should begin a proceeding to establish policies that will guarantee the population of the United States will continue to benefit from a ubiquitous telecommunications network.

2. GTE urges the Commission to take prompt action to initiate a rulemaking proceeding looking to the creation of broad and explicit universal service support mechanisms that (i) include all telecommunications service providers, and (ii) thereby avoid distorting effects upon competition among telecommunications service providers.

3. The emergence of competitors for many LEC services places great strain on the continued viability of existing implicit support for universal service embedded within the prices for exchange carrier services. These competitive pressures on exchange carrier rate levels highlight the need for prompt Commission action to create explicit support mechanisms that can be separately identified, the cost of which can be recovered in a manner that will least distort the competitive market.

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8368  
RM-8888

GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), with reference to the Public Notice dated November 16, 1993, Report No. 1986, submit the following comments regarding the Petition of MFS Communications Company, Inc. ("MFS") for a Notice or Inquiry and *En Banc* Hearing (the "*MFS Petition*") filed on November 1, 1993.

BACKGROUND

MFS states (at 1) its belief that the "assurance of universal service is undoubtedly the single most significant public policy issue that the FCC will have to address as the market for local telephone service becomes increasingly competitive." MFS asks the Commission to commence a rulemaking proceeding to "determine future policies assuring the continued availability of universal telephone service." MFS recommends (at 2-3) the Commission first determine "what form and amount of subsidy is really necessary to preserve universal service," and then establish "a secure, competitively neutral and equitable source of funding for that subsidy."

## DISCUSSION

### **I. GTE AGREES WITH MFS THAT THE COMMISSION SHOULD BEGIN A PROCEEDING TO REEVALUATE NATIONAL UNIVERSAL SERVICE POLICY.**

GTE believes that continuation of universal service throughout the nation is and should be an important societal goal. As MFS notes (at 2) the Commission is specifically charged with this responsibility by the express terms of Section 1 of the Communications Act of 1934. It is essential that the Commission take immediate action to begin a process to determine the most appropriate method of ensuring that the citizens of this nation continue to have access to a ubiquitous telecommunications network.

GTE agrees with MFS' evaluation (at 6-7) that none of the Commission proceedings currently in progress offer a venue for the comprehensive examination that is necessary. While a number of recent activities have addressed topics that are relevant to universal service policies, none have included the full range of issues that must be examined. Nevertheless, a great deal of insight is already available from the inputs regarding the *NARUC Petition*, the *USTA Petition*, and the *FCC Staff Analysis* that can serve as the basis for the Commission to develop a notice of proposed rulemaking.<sup>1</sup>

MFS (at 7) recommends consideration of universal service issues "separately from, and in the early stages of, any overall review of access charges." MFS (at 8) states that while it

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<sup>1</sup> See National Association of Regulatory Utility Commissioners' ("NARUC") Request for a Notice of Inquiry Concerning Access Issues (the "*NARUC Petition*"), DA 93-847, filed June 25, 1993; United States Telephone Association ("USTA") Petition for Rulemaking regarding Reform of the Interstate Access Charge Rules (the "*USTA Petition*"), RM-8356, filed September 17, 1993; Federal Perspectives on Access Charge Reform, A Staff Analysis, April 30, 1993 (the "*FCC Staff Analysis*").

supports a comprehensive review of access charges and does not seek to delay that process, it is concerned that resolution of critical policy issues concerning universal service should not await the outcome of a lengthy access charge reform docket.

GTE agrees that examinations leading to reform of both access charges and universal service policies are vital. GTE also shares MFS' concern that review of one not delay the other. The Commission can obviate these concerns by immediately beginning two concurrent and parallel proceedings.

In its Petition for reform of the Commission's access rules, USTA proposes that two concurrent proceedings should be established. One proceeding would review the current rate structure and pricing rules for exchange carriers' interstate access services. The other proceeding would focus on universal service, and would develop any new mechanisms needed to maintain universal service in a competitive environment. These proposals, which GTE supports, are designed so that they can proceed independently. For example, the proposed rate structure would establish a list of Public Policy elements. If the proceeding on universal service establishes a new recovery mechanism, then any new elements needed to implement that mechanism could be included as Public Policy elements. This could be done when the new rate structure is implemented, or at some later time, depending on which proceeding is completed first.<sup>2</sup> There is thus no need for either of these efforts to wait for the other. Both of the proceedings proposed by USTA - on access reform and on universal service - should begin as soon as possible, and each should move forward as rapidly as possible.

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<sup>2</sup> When a new mechanism is implemented, it may also be appropriate to rebalance other interstate access rates, to the extent that the new universal service mechanism recovers support flows which are currently generated by LEC interstate access services.

**In summary:** MFS is correct in saying the Commission should begin a proceeding to establish policies that will guarantee that the population of the United States will continue to benefit from a ubiquitous telecommunications network.

**II. EXPLICIT SUPPORT PROGRAMS MUST BE REVISED TO INCLUDE ALL TELECOMMUNICATIONS SERVICE PROVIDERS USING A CONTRIBUTION MECHANISM THAT DOES NOT DISTORT COMPETITION.**

MFS (at 13) discusses the uneconomic incentives that can occur when subsidies are present in a market subject to competition. The existing mechanisms that explicitly support universal service are inappropriate in a competitive environment since they inflate the prices charged by only certain providers, i.e., by local exchange carriers ("exchange carriers" or "LECs") and some interexchange carriers ("IXCs").<sup>3</sup> This does indeed "create uneconomic incentives for users to avoid those services whose prices are inflated by subsidy funding requirements." *MFS Petition* at 13.

It is reasonable to expect that all providers of telecommunications service, and indirectly all users, should contribute toward meeting national universal service policy goals. It is equally clear that a funding mechanism with the broadest possible base of

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<sup>3</sup> There are several explicit universal service programs. The Universal Service Fund ("USF") requires IXCs with greater than 0.05 percent of the total presubscribed lines in the nation to fund assistance for exchange carriers in high cost areas. See C.F.R. 69.116. Link-Up America provides assistance directly to low income customers to subsidize connection charges. The Lifeline program assists low income customers in paying Subscriber Line Charges. See C.F.R. 69.117. Both Link-Up America and Lifeline are also funded through charges to IXCs. Long Term Support is a mechanism funded by large LECs that is used to assist small exchange carriers with unusually high non-traffic sensitive costs. See C.F.R. 69.612.

contributors will create the smallest market distortion.<sup>4</sup> The public interest dictates that the Commission put aside current methods of collecting explicit support monies involving only some exchange carriers and certain IXCs. The reason for this is that – if only particular service providers, or classes of service provider, are contributors to the continuation of universal service – the cost basis of these contributors will be inflated relative to other providers, and accordingly they will be placed at a competitive disadvantage. Thus, it is imperative that: (i) contribution not be limited to some subset of telecommunication service providers, and (ii) support payments be gathered in a manner that does not distort competition in the markets in which contributors participate.

While MFS advocates (at 19) the correct approach – spreading the contribution equitably to "all users of telecommunications services ... on a non-discriminatory, competitively-neutral basis" – this recommendation is "premised on the elimination of entry barriers for all telecommunications services – all services, including basic local dialtone." *MFS Petition*, Attachment 1 at 3. MFS' offer to contribute rings hollow. This qualification amounts to a requirement for establishing regulatory distinctions among telecommunications service providers. Some would pay since they address a particular market, while others not participating in that particular market would not pay. In a marketplace that is experiencing rapid technological transformation and continual

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<sup>4</sup> The method that would create the least distortion would be use of general tax revenues through imposition of a tax on all citizens or businesses. Application of a contribution obligation to all telecommunications firms would be the next most desirable method.



changes in the identity of service providers as mergers and acquisitions occur and alliances form and disappear, these artificial distinctions cannot be sustained.<sup>5</sup>

In effect, MFS is seeking to place preconditions on Commission action to improve support mechanisms. Since implementation of these preconditions would require unified and coordinated action of the Commission and state regulatory and/or legislative agencies to an extent that has never occurred in the past, they could amount to exempting Competitive Access Providers ("CAPs") from making contributions indefinitely.

Nothing should be permitted to bog down the FCC's address to these urgent matters. The Commission should not permit itself to be diverted or delayed from moving forward to develop support programs that are more sustainable and less distorting than those currently in place. MFS' proposals concerning local exchange competition should not be a precondition to reform of universal service funding.

**In summary:** GTE urges the Commission to take prompt action to initiate a rulemaking proceeding looking to the creation of broad and explicit universal service support mechanisms that (i) include all telecommunications service providers, and (ii) thereby avoid distorting effects upon competition among telecommunications service providers.

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<sup>5</sup> See, for example, "5 Big MSOs Form Joint Venture to Compete with Telcos," COMMUNICATIONS DAILY, December 2, 1993, at 1-2; and "Jones Intercable Enters Accord With BCE Inc.," WALL STREET JOURNAL, December 3, 1993, pages A3, A16.

**III. IMPLICIT SUBSIDIES SHOULD BE REMOVED FROM EXCHANGE CARRIER PRICES AND REPLACED BY EXPLICIT SUPPORT MECHANISMS.**

MFS (at 2) warns that it is the Commission's responsibility "to assure that the protection of universal service is not used by entrenched monopolists as a shield against competition."

MFS has a backward view. Exchange carriers seek the ability to compete on the basis of price rather than some untenable regulatory protection against competitors; and real price competition requires removal of embedded support flows from the rates for LEC services – a burden not borne by such entities as MFS.

In many states, and of course at the federal level, regulation is encouraging competition for LEC-provided services. The thrust of regulatory policy is the immediate introduction of competition, not the erection or maintenance of barriers to entry. Even in the absence of specific regulatory action, the introduction of new technology is providing opportunities to replace many traditional exchange carrier services. Continued delay in creating more broadly based and explicit support arrangements will extend to additional markets the present situation whereby exchange carriers are required to offer competitive services at artificially inflated prices. The Commission has correctly recognized that this type of situation will "send false economic signals to new entrants."<sup>6</sup> Prompt Commission action is necessary to avoid exacerbating a growing problem.

Currently, the prices for exchange carrier services support universal access to the network in a number of ways. Rates for access and toll services are set above competitive market levels. Geographically averaged rate structures and price

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<sup>6</sup> See Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Second Report and Order and Third Notice of Proposed Rulemaking, FCC 93-379 (released September 2, 1993), at para. 91.

distinctions based on user identity<sup>7</sup> artificially hold down the price of service for certain customers and in high cost locations. Exchange carriers also experience higher costs in total as a result of offering service in every location.<sup>8</sup> In addition, large exchange carriers provide one third of a billion dollars a year in Long Term Support payments to National Exchange Carrier Association ("NECA") pool companies.<sup>9</sup> While these approaches have supported universal service objectives in the past, they have also distorted the market by placing the cost on only some competitors, thereby putting those competitors at a serious competitive disadvantage.<sup>10</sup> On all sides – ranging from CAPs such as MFS to exchange carriers such as GTE – there is a powerful consensus calling for prompt FCC action selecting effective mechanisms designed to assure universal service in a new environment.

**In summary:** The emergence of competitors for many LEC services places great strain on the continued viability of existing implicit support for universal service

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<sup>7</sup> For example, between residence and business users.

<sup>8</sup> LECs cannot restrict basic service offerings to only selected markets, but must serve customers in any location regardless of the stand-alone economic viability of that location. This provider-of-last-resort requirement results in higher average costs for the LEC than would occur if the exchange carrier were able to respond to market needs in only limited areas.

<sup>9</sup> See C.F.R. 69.612.


<sup>10</sup> Although MFS (at 19) "recognizes its obligation ... to participate in the funding of universal service goals," it expends considerable effort (at 13-16) to setting the stage for minimizing its potential contributions. MFS attempts to downplay the magnitude of implicit subsidies included within exchange carrier prices. Without becoming embroiled in extensive debate as to the magnitude of these implicit subsidies -- which could be addressed in the proceeding both MFS and GTE believe should be promptly convened -- GTE will only recommend great skepticism with regard to MFS' claims. It is clear that prices for interstate access services have been set at levels higher than those a competitive market would produce. This has been done to support the approach regulators have traditionally taken to maintaining universal service.

embedded within the prices for exchange carrier services. These competitive pressures on exchange carrier rate levels highlight the need for prompt Commission action to create explicit support mechanisms that can be separately identified, the cost of which can be recovered in a manner that will least distort the competitive market.

Respectfully submitted,

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December 16, 1993

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## Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Comments" have been mailed by first class United States mail, postage prepaid, on the 16th day of December, 1993 to the following parties:

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